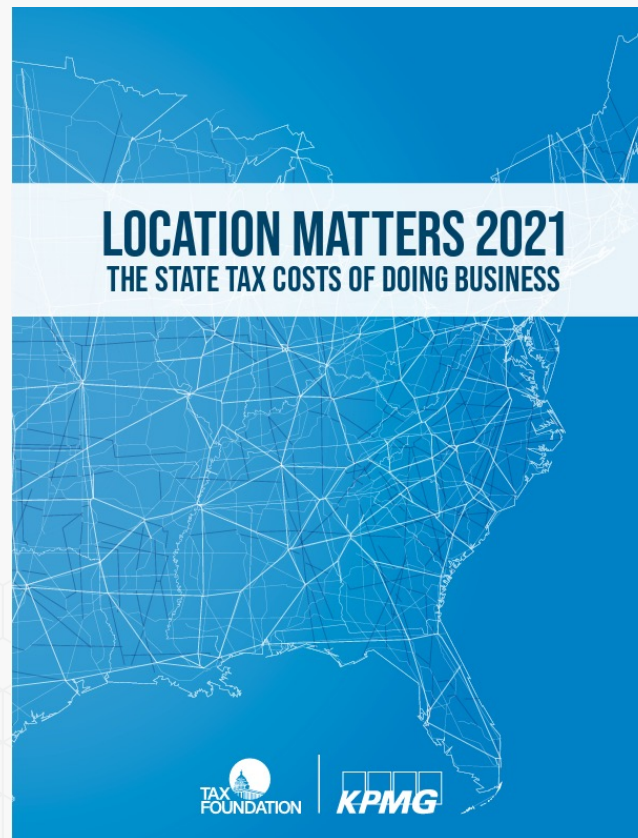
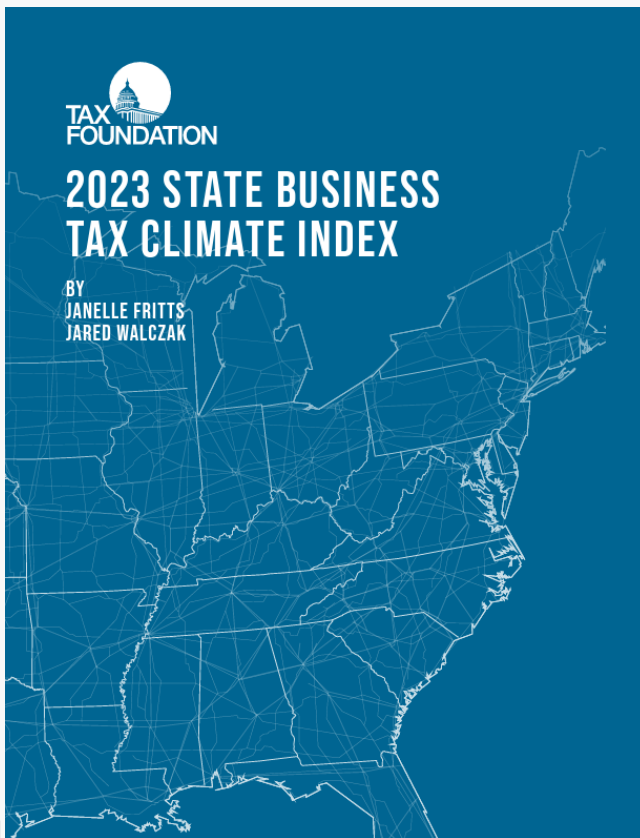


# State Business Tax Competitiveness

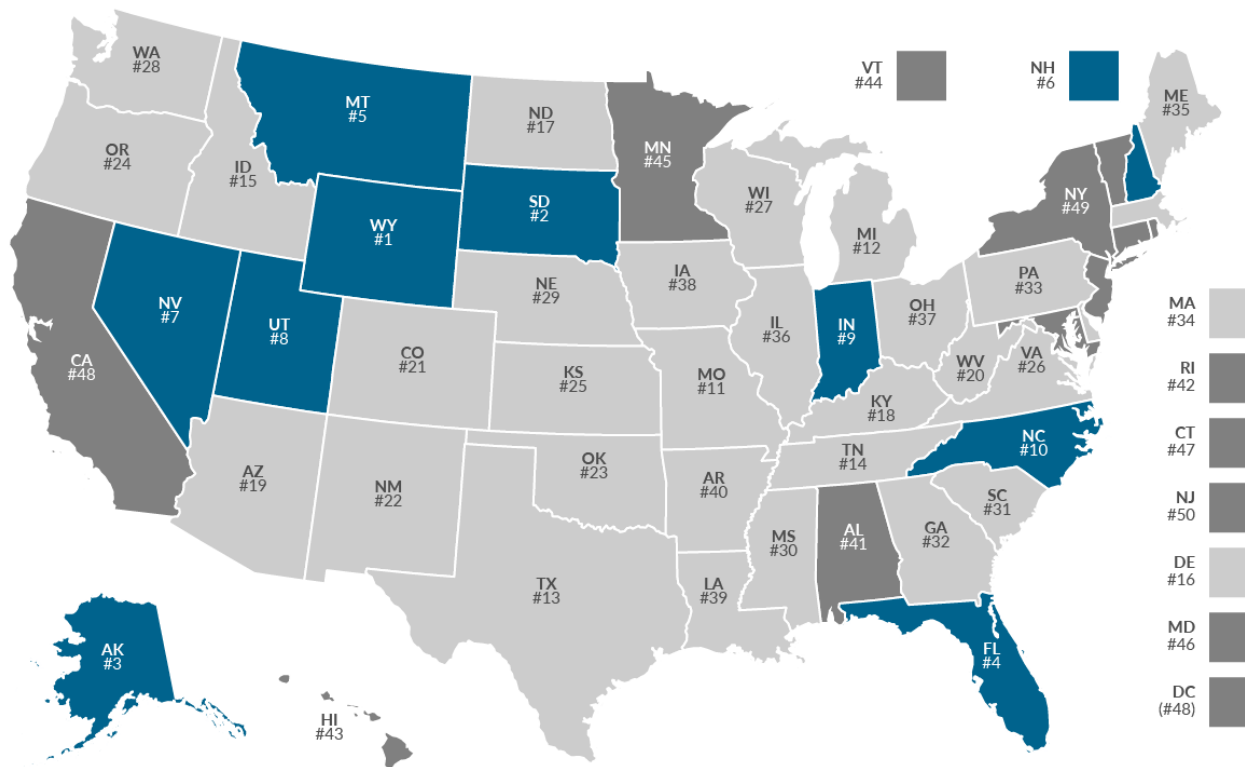
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Jared Walczak, Tax Foundation  
October 3, 2023

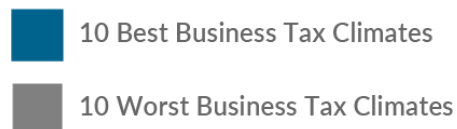


TAX FOUNDATION

## 2023 State Business Tax Climate Index



Note: A rank of 1 is best, 50 is worst. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2022 (the beginning of Fiscal Year 2023). Source: Tax Foundation.



TAX FOUNDATION

# Structural Evaluation (*Index*)

TABLE 10.

## State Corporate Income Tax and Business Tax Bases: Net Operating Losses (as of July 1, 2022)

	Carryback (Years)	Carryback Cap	Carryforward (Years)	Carryforward Cap
Alabama	0	\$0	15	Unlimited
Alaska		Conforms to federal treatment		
Arizona	0	\$0	20	Unlimited
Arkansas				
California				

TABLE 11.

## State Corporate Income Tax and Business Tax Bases: Treatment of Capital Investment (as of July 1, 2022)

	Section 168(k) Expensing	Conforms to Section 163(j) Limitation	GILTI Inclusion
Alabama	100%	Yes	Decouples/95% exclusion
Alaska	100%	Yes	Decouples/95% exclusion
Arizona	0%	Yes	Decouples/95% exclusion
Arkansas			
California			

TABLE 12.

## State Corporate Income Tax and Business Tax Bases: Other Variables (as of July 1, 2022)

	Federal Income Used as State Tax Base	Allows Federal ACRS or MACRS Depreciation	Allows Federal Depletion	Throwback Rule	Foreign Tax Deductibility	Corporate AMT	Brackets Indexed for Inflation
Alabama	Yes	Yes	Yes	No	Yes	No	Flat CIT
Alaska	Yes	Yes	Partial	Yes	No	Yes	No
Arizona	Yes	Yes	Yes	No	No	No	Flat CIT
Arkansas							
California							

TABLE 14.

## State Individual Income Tax Bases: Marriage Penalty, Capital Income, and Indexation (as of July 1, 2022)

	Marriage Penalty	Convenience Rule	Capital Income Taxed			Indexed for Inflation		
			Interest	Dividends	Capital Gains	Tax Brackets	Standard Deduction	Personal Exemption
Alabama	No	No	Yes	Yes	Yes	No	No	No
Alaska	n.a.	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Arizona	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Arkansas	Yes	No	Yes	Yes	Yes	Yes	No	Yes
California	Yes	No	Yes	Yes	Yes	Partial	Yes	Yes
	..	..	..	..	..	..	..	..

TABLE 15.

## State Individual Income Tax Bases: Other Variables (as of July 1, 2022)

	Federal Income Used as State Tax Base	Credits for Taxes Paid to Other States	AMT Levied	Recognition of LLC Status	Recognition of S-Corp Status	Section 179 Expensing Limit
Alabama	No	Yes	No	Yes	Yes	\$1,000,000
Alaska	Yes	Yes	No	Yes	Yes	\$1,000,000
Arizona	Yes	Yes	No	Yes	Yes	\$1,000,000
Arkansas						
California						

TABLE 17.

## State Sales Tax Bases: Exemptions for Business-to-Business Transactions (as of July 1, 2022)

	Specific Exemption	Farm Equipment	Office Equipment	Manufacturing Machinery	Manufacturing Raw Materials	Business Fuel & Utilities	Business Lease & Rentals	Information Services
Alabama	No	Taxable	Taxable	Taxable	Exempt	Exempt	Taxable	Taxable
Alaska	n.a.	n.a.	n.a.	n.a.	Exempt	Exempt	n.a.	n.a.
Arizona	No	Exempt	Taxable	Exempt	Exempt	Taxable	Taxable	Exempt
Arkansas								
California								

TABLE 19.

## Sales Tax Structure (as of July 1, 2022)

	Uniform Base Definitions	Unified Tax Administration	Safe Harbor for Remote Sellers
Alabama	Yes	No	Gross Sales Threshold
Alaska	No	No	n.a.
Arizona	No	Yes	Gross Sales Threshold
Arkansas	Yes	Yes	Sales or Transactions Threshold
California			

TABLE 23.

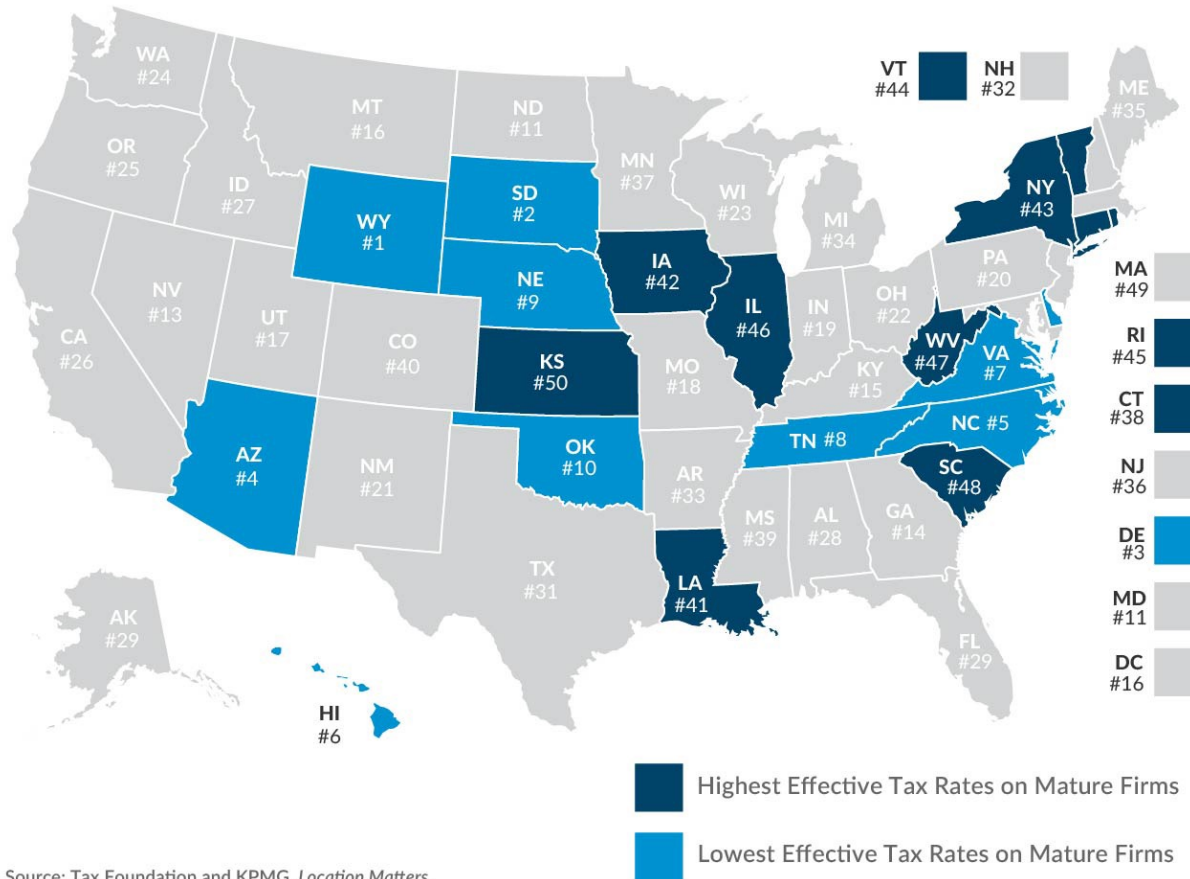
## State Unemployment Insurance Tax Bases: Experience Formulas and Charging Methods (as of July 1, 2022)

State	Experience Formula Based On	Benefits Are Charged to Employers in Proportion to Base Period Wages	Company Charged for Benefits If				
			Employee's Benefit Award Reversed	Reimbursements on Combined Wage Claims	Employee Left Voluntarily	Employee Discharged for Misconduct	Employee Refusal to Work
Alabama	Benefits Ratio	Yes	No	Yes	No	No	Yes
Alaska	Payroll Decline	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Arizona	Reserve Ratio	Yes	No	No	No	No	Yes
Arkansas	Reserve Ratio	Yes	No	Yes	No	No	Yes
California	Reserve Ratio	Yes	No	Yes	No	No	Yes

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## Location Matters Rankings: Mature Firms

Ranks of Effective Tax Rates on Mature Firms



Source: Tax Foundation and KPMG, *Location Matters*.

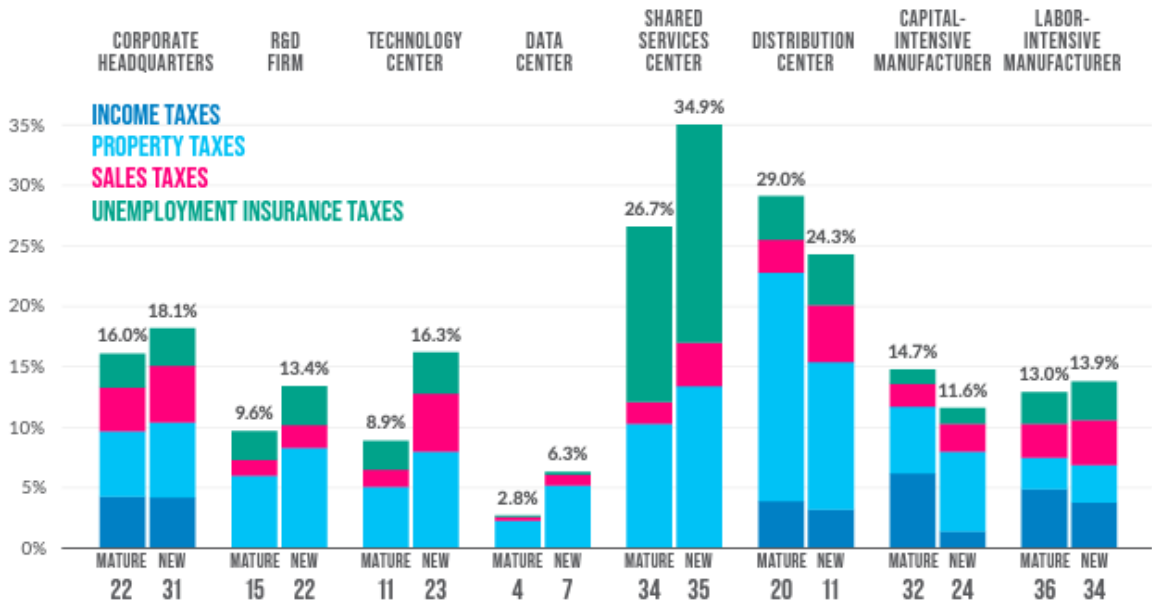
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	Mature Rank	Mature Rate	New Rate	New Rank
HI	1	-13.0%	-18.2%	1
GA	2	5.1%	5.4%	7
WY	3	6.5%	11.8%	18
PA	4	7.1%	9.5%	12
ND	5	7.4%	11.4%	15
IN	6	7.5%	10.2%	14
MD	7	7.6%	10.2%	13
CA	8	8.5%	14.3%	26
AR	9	8.7%	9.4%	10
DE	10	8.8%	5.8%	8
NC	11	8.8%	3.5%	5
SD	12	8.9%	13.1%	21
OR	13	9.5%	14.7%	29
AZ	15	9.6%	15.7%	33
UT	16	9.6%	13.4%	22
KY	16	10.1%	12.1%	19
OK	17	10.2%	2.1%	4
NE	18	10.4%	-0.5%	3
NV	19	10.5%	17.8%	38
ME	20	10.6%	15.5%	35
VT	21	10.7%	11.5%	16
ID	22	11.1%	13.7%	24
TN	23	11.7%	15.4%	31
WI	24	11.9%	13.9%	25
NM	25	12.0%	5.9%	9
MT	26	12.0%	14.9%	30
VA	27	12.4%	19.8%	40
CO	28	12.7%	20.7%	43
AK	29	12.9%	15.5%	32
NJ	30	13.2%	16.3%	34
MO	31	13.3%	14.7%	27
TX	32	13.5%	21.8%	47
FL	33	13.6%	19.4%	39
OH	34	13.6%	13.4%	23
IA	35	13.7%	17.8%	37
WA	36	13.8%	20.1%	41
MA	37	14.3%	21.2%	44
LA	38	14.4%	9.4%	11
RI	39	14.7%	25.9%	50
NH	40	14.7%	16.7%	36
CT	41	15.3%	25.6%	49
MN	42	15.4%	20.4%	42
MS	43	15.4%	13.0%	20
NY	44	15.6%	-2.4%	2
AL	45	15.9%	5.1%	6
MI	46	16.0%	25.4%	48
IL	47	16.4%	14.7%	28
SC	48	17.5%	21.7%	46
WV	49	19.4%	21.5%	45
KS	50	20.4%	11.7%	17
DC	(23)	11.7%	22.4%	(48)

Left: Effective rates on R&D by state

Right: Effective rates for all studied firms, Utah

# Industry Burdens (Location Matters)



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## ***Location Matters Takeaways***

- Tax structure and tax bases matter as much as, or even more than, tax rates
- Traditional corporate income taxes are only a small fraction of companies' overall tax burden
- Tax burdens are nonneutral both within and across firms
- Incentives for new firms come at a cost



# Important Issues in Business Taxation

- Business input taxation under sales taxes and GRTs
- Tax treatment of capital investment
- Net operating loss carryforward provisions
- Business tangible property taxation
- Capital stock taxation
- Nexus and apportionment rules
- GILTI and other extraterritorial taxation
- Post-*Wayfair* tax compliance burdens
- Split roll property taxes
- High rates